



The Southern African Institute of Government Auditors

Qualifying Examination for Registered Government Auditors

Paper 1: Regulatory Framework

November 2012

INSTRUCTIONS TO CANDIDATES

- 1 Maximum marks: **160**.
- 2 Total time available: **four hours**.
- 3 The marks allocated to each question are an indication of the expected length and required depth of the answer.
- 4 Ensure proper planning and avoid exceeding the time you have allocated for each question as suggested by the number of marks allocated to the question.
- 5 Present your arguments clearly, using well structured, clear and precise language and appropriate professional terms.
- 6 No books or notes are allowed in the examination room.
- 7 All working papers must be handed in together with all paper provided for the examination (including unused answer sheets).
- 8 Answers written in pencil will not be marked.
- 9 You are reminded that this examination will be held under the rules as set out in the document "RGA-QE Examination Matters & Examination Policy 2012".
- 10 You are required to observe all Examination Instructions on the separate sheet of paper handed to you before commencement of this examination.

QUESTION 1

(40 marks)

REQUIRED:

For each sub-section of this question select only **ONE** alternative that you consider to be appropriate (or nearest correct). Please answer these questions on the multiple choice answer sheet provided to you.

You will not be penalised for incorrect answers (no negative marking will be applied).

The questions have to be read and answered in the context of the **Public Finance Management Act** (PFMA), the **Treasury Regulations**, the **Municipal Finance Management Act** (MFMA) and the **Public Audit Act** (PAA).

Question 1.1

Chapter one of the PFMA sets out the broad strategy to be followed in order to achieve the constitutional objectives with regard to the finances of the public sector. The Constitutional mandate covers a number of areas. Which of the following are **not** covered by the PFMA's Constitutional mandate?

- a National Treasury.
- b GRAP.
- c Classification of public entities.
- d Treasury norms and standards.
- e Expenditure control.

Question 1.2

With reference to the definitions contained in the PFMA an Accounting Authority is:

- 1 In relation to a public entity, the cabinet member accountable to parliament for that entity.
- 2 In relation to a public entity, the board or controlling body of the entity.
- 3 In relation to a national public entity, the Director-General of the department overseeing the public entity.
- 4 In relation to a national public entity, the person in charge of the public entity.

Choose the **correct** combination.

- a 1 and 2.
- b 2 and 4.
- c 3 and 4.
- d 2 and 3.
- e 1 and 4.

Question 1.3

In terms of section 5 of the PFMA, National Treasury's policy and other decisions affecting the Treasury are the responsibility of the:

- a Accounting officer.
- b Minister.
- c Director-General.
- d Accountant-General.
- e Executive authority.

Question 1.4

In terms of the PFMA, National Treasury must prepare consolidated financial statements in terms of GRAP for, amongst others, the following entities:

Choose the **incorrect** option.

- a National departments.
- b National public entities.
- c Provincial government departments.
- d Constitutional institutions.
- e The South African Reserve Bank.

Question 1.5

The following situation was identified through the performance of your audit procedures in a department: "*Expenditure was incurred on major capital projects without a proper needs assessment having first been done in the form of a project evaluation*". Identify under which of the following headings you would report this in your audit findings:

- a Fruitless and wasteful expenditure.
- b Non-compliance with laws and regulations.
- c Irregular expenditure.
- d Unauthorised expenditure.

Question 1.6

The following irregular expenditure was identified in a department: "*Payments to fictitious suppliers*". The department wants to request that the expenditure be condoned. Who would be able to condone the expenditure?

- a National Treasury.
- b The Accounting Officer.
- c No means of condonation.
- d Minister of Finance.
- e DPSA.

Question 1.7

The following expenditure was identified in a department: "*Overtime paid to employees even though the department does not have an overtime policy*". Identify the type of "unwanted expenditure" the department should disclose the overtime expenditure as.

- a Fruitless and wasteful.
- b Irregular.
- c Unauthorised.
- d Non-compliance with laws and regulations.

Question 1.8

The department identified in question 1.7 above is seeking condonation of the expenditure on overtime. Who has the authority to condone the expenditure?

- a National Treasury.
- b The Accounting Officer.
- c Provincial Treasury.
- d DPSA.
- e No-one. Condonement is not possible.

Question 1.9

According to chapter four of the PFMA, a national adjustment budget may only provide for:

Choose the **incorrect** option.

- a Unforeseen economic and financial events.
- b Unforeseen and unavoidable expenditure recommended by the National Executive.
- c Under-budgeting by national government's essential services departments.
- d The roll-over of unspent funds from the previous year.
- e Condonation of prior unauthorised expenditure.

Question 1.10

In terms of a cabinet decision, a function of the department of Water Affairs was transferred to the Department of Environmental Affairs. The function was transferred together with the assets of the division. In terms of section 42 of the PFMA, identify which step may **NOT** be taken:

- a The Accounting Officer of the receiving department must draw up an inventory of the assets.
- b Both Accounting Officers must sign the inventory list.
- c The Accounting Officer of the transferring department must inform the Auditor-General South Africa (AGSA) within 14 days of the transfer.
- d The Accounting Officer of the transferring department must inform the AGSA within 14 days of the transfer.
- e The AGSA must verify the assets within 14 days of the transfer.

Question 1.11

A public entity wishes to borrow money for a capital project. The legislation establishing the public entity allows for the provision of a guarantee for the borrowing of money. In terms of section 66 of the PFMA this is:

- a Not allowed.
- b Allowed.
- c Allowed with permission from the relevant treasury.
- d Not allowed unless an adjustment budget is submitted.
- e Allowed, as long as the Auditor-General South Africa is informed.

Question 1.12

In terms of section 77 of the PFMA, an audit committee in a government department must:

- 1 Have a chairperson from outside the public service.
- 2 Have a chairperson from outside the department.
- 3 Have the majority of members from outside the department.
- 4 Have the majority of members from outside the public service.

Choose the **correct** combination.

- a 1, 2, 3, 4.
- b 2, 3.
- c 1, 2, 4.
- d 2, 3, 4.
- e 1, 4.

Question 1.13

The *Treasury Regulations* are issued in terms of which chapter of the PFMA:

- a National Treasury and National Revenue Fund (Chapter 2).
- b General treasury matters (Chapter 9).
- c Accounting Officer's responsibilities (Chapter 5).
- d Interpretation, object, application and amendment (Chapter 1).
- e None of the above.

Question 1.14

In terms of *Treasury Regulation 2.1*, the Chief Financial Officer of an institution is responsible for:

- 1 Effective financial management.
- 2 The operation of internal audit.
- 3 Sound budgeting practice.
- 4 Timely production of financial reports.
- 5 Administrative management of the supply chain process.

Choose the **correct** combination.

- a 1, 2, 3, 4, 5.
- b 1, 2, 5.
- c 1, 3, 4, 5.
- d 1, 3, 4.
- e 2, 3, 4, 5.

Question 1.15

During your audit of a national government department you discovered that the Accounting Officer terminated the services of the members of the audit committee, in writing. Is this the correct procedure?

- a Yes, the Accounting Officer can terminate their services.
- b No, the executive authority should have terminated their services.
- c No, the Accounting Officer in consultation with the executive authority should have terminated their services.
- d No, the executive authority in consultation with the relevant treasury should have terminated their services.
- e Yes, as long as there had been proven non-performance of duties.

Question 1.16

An audit committee may, at its discretion, communicate any of its concerns to:

- 1 The relevant executive authority.
- 2 The relevant treasury.
- 3 The Auditor-General South Africa.
- 4 The Accountant-General.

Choose the **correct** combination.

- a 1, 3.
- b 1, 3, 4.
- c 1, 2, 4.
- d 1, 2, 3.
- e 1, 2, 3, 4.

Question 1.17

An internal audit function may be partly or wholly contracted to an external organisation with specialist audit expertise

- a If appropriate supply chain procedures are followed.
- b If, after contracting out an internal audit function, the Auditor-General South Africa is informed within 30 days.
- c If, after contracting out an internal audit function, the National Treasury is informed within 30 days.
- d a and b above.
- e a, b and c above.

Question 1.18

In terms of regulation 3.2 of the *Treasury Regulations*, the Accounting Officer must:

- 1 Ensure that risk assessment is conducted regularly.
- 2 Ensure that a risk management strategy is developed.
- 3 Determine the skills required of managers and staff, in order to improve controls.
- 4 Establish a risk management committee.
- 5 Ensure that the risk management strategy includes a fraud prevention plan.

Choose the **correct** combination.

- a All of the above.
- b 1, 2, 3, 4.
- c 1, 2, 3, 5.
- d 1, 3, 5.
- e 1, 2, 3, 4.

Question 1.19

In terms of *Treasury Regulation* 4.1, alleged financial misconduct must be investigated.

Choose the **incorrect** statement.

- a If an official is alleged to have committed financial misconduct, the Accounting Officer must ensure that an investigation is conducted.
- b The Accounting Officer must ensure that the investigation is initiated within 30 days.
- c If the Accounting Officer is alleged to have committed financial misconduct, the relevant executive authority must ensure that the relevant treasury initiates an investigation into the matter.
- d A relevant treasury may direct that an official, other than an employee of the institution, conducts the investigation.
- e A relevant treasury may issue any reasonable requirement regarding the way in which the investigation should be performed.

Question 1.20

When the disciplinary proceedings against an official alleged to have committed financial misconduct is complete, the Accounting Officer must inform the following persons or entities of the outcome:

- 1 The executive authority.
- 2 The Auditor-General South Africa.
- 3 The DPSA.
- 4 The Public Service Commission.
- 5 The Public Service Bargaining Council.

Choose the **correct** combination.

- a 1, 2, 3, 4, 5.
- b 1, 3, 4, 5.
- c 1, 2, 3, 5.
- d 1, 2, 3, 4.
- e 1, 2, 4, 5.

Question 1.21

In terms of regulation 5 of the *Treasury Regulations* (Strategic Planning), an institution's strategic plan must be prepared by the Accounting Officer and ...

Choose the **incorrect** statement.

- a The strategic plan must cover a period of four years.
- b The strategic plan must be consistent with the institution's published medium term expenditure estimates.
- c The strategic plan must include the measurable objectives, expected outcomes, programme outputs, indicators and targets of the institution's programmes.
- d The strategic plan must include details of the Service Delivery Improvements Programme.
- e The strategic plan must include reference to specific Constitutional and other legislative, functional and/or policy mandates that indicate the output deliverables for which the institution is responsible.

Question 1.22

In terms of the *Treasury Regulation* 6.4.1:

Choose the **incorrect** option.

- a Unspent funds allocated for payments for capital assets may only be rolled over to finalise ongoing projects or asset acquisitions still in progress.
- b Savings on transfer payments may not be rolled over.
- c Savings on transfer payments may be rolled over.
- d Savings on compensation of employees may not be rolled over.
- e A maximum of five per cent of a department's payments for goods and services may be rolled over.

Question 1.23

In terms of the MFMA, chapter 1, the Accounting Officer of a municipality is:

- a The Mayor.
- b The Council.
- c The Municipal Manager.
- d The Chief Financial Officer.
- e The Mayor and the Municipal Manager.

Question 1.24

According to section 10 of the MFMA, the bank account of a municipality may be administered by:

- a The municipal manager.
- b The Chief Financial Officer (CFO) as delegated by the Mayor.
- c A senior financial officer delegated by the CFO.
- d The Mayor.
- e The Council.

Question 1.25

In terms of section 13 of the MFMA, which entity must be informed by commercial banks of any bank accounts and the balances therein?

- a National Treasury.
- b National Treasury and Provincial Treasury.
- c The Council.
- d Auditor-General South Africa (AGSA).
- e National Treasury and the AGSA.

Question 1.26

According to section 18 of the MFMA, an annual budget may only be funded from:
Choose the **incorrect** option.

- a Money voted by the provincial treasury.
- b Realistically anticipated revenue.
- c Un-committed prior year surpluses.
- d Borrowed funds, for capital projects.
- e Voted funds from the provincial treasury.

Question 1.27

According to section 45 of the MFMA, a municipality:
Choose the **correct** option.

- a May not incur short-term debt for capital needs within a financial year.
- b May incur short-term debt for capital needs within a financial year.
- c May incur long-term debt for capital needs within a financial year.
- d May not incur long-term debt for capital needs within a financial year.
- e May not incur any debt.

Question 1.28

In terms of section 43 of the MFMA, who is responsible for making public the revenue and expenditure projections for each month?

- a The Chief Financial Officer.
- b The Mayor.
- c The Municipal Manager.
- d The Council.
- e The Mayor and the Council.

Question 1.29

Section 68 of the MFMA prescribes that in a municipality:
Choose the **incorrect** option.

- a The Mayor is responsible for the budget process.
- b The municipal manager is responsible for the budget process.
- c The municipal manager is required to assist the Mayor in the budget process.
- d The Chief Financial Officer is responsible for the budget process.
- e The Council is responsible for the budget process.

Question 1.30

Section 114 of the MFMA determines that when a tender, other than the one that has been recommended, is accepted, the following persons or entities must be informed: Choose the **incorrect** option.

- a National Treasury.
- b Provincial Treasury.
- c The department of local government in the province.
- d The Auditor-General South Africa.
- e The Council.

Question 1.31

The *Public Audit Act* provides certain overruling principles regarding the status of the Auditor-General South Africa (AGSA). Which of the following is **not** a provision in the *Public Audit Act*?

- a The AGSA is subject only to our country's Constitution, the law and the *Public Audit Act*.
- b The AGSA is the Supreme Audit Institution in South Africa.
- c The AGSA must be impartial and act without fear, favour or prejudice.
- d The AGSA is accountable to the Minister of Finance, through the oversight mechanism provided for in the *Public Audit Act*.
- e None of the above.

Question 1.32

In terms of the *Public Audit Act*:

- 1 There are audits that the Auditor-General South Africa (AGSA) cannot opt to audit.
- 2 There are audits that the AGSA can opt to audit.
- 3 The AGSA must audit all audits.
- 4 The AGSA can opt to audit any audit.

Choose the **correct** combination.

- a 1, 2.
- b 3, 4.
- c 1, 3.
- d 2, 4.
- e 1, 4.

Question 1.33

Who initiates the process of appointing the Auditor-General?

- a The President.
- b The Minister of Finance.
- c The Speaker of Parliament.
- d Parliament.
- e The parliamentary oversight committee.

Question 1.34

Who determines the term of office of the Auditor-General?

- a The Speaker of Parliament.
- b The parliamentary oversight committee.
- c The President.
- d Parliament.
- e The Minister of Finance.

Question 1.35

In terms of the *Public Audit Act*, which of the following persons may NOT be authorised by the Auditor-General South Africa (AGSA) to perform or to assist in the performance of an audit?

Choose the **incorrect** option.

- a A member of the staff of the AGSA who is not registered as an accountant and auditor in terms of the *Public Accountants' and Auditors' Act*.
- b A member of the staff of the AGSA who is not registered as an accountant and auditor in terms of the *Public Accountants' and Auditors' Act*, but has the qualifications, experience and competence.
- c A private practitioner who is registered as an accountant and auditor in terms of the *Public Accountants' and Auditors' Act*.
- d A private practitioner who is not registered as an accountant and auditor in terms of the *Public Accountants' and Auditors' Act*.
- e A person with non-accountancy qualifications, experience and competence to the extent that such qualifications, experience and competence is sufficient for any particular audit.

Question 1.36

In terms of the *Public Audit Act*, when performing an audit ____

Choose the **incorrect** option.

- a The Auditor-General South Africa (AGSA) or an authorised auditor has at all reasonable times full and unrestricted access to any document, book or written or electronic record or information of the auditee which reflects or may elucidate the business, financial results, financial position or performance of the auditee.
- b A person who is required in terms of any legislation to maintain secrecy or confidentiality, or not to disclose information relating to a matter, cannot be required by the AGSA to comply with any of the requirements in this section, as the person would be thereby be in breach of that person's obligation of secrecy or confidentiality or non-disclosure.
- c A person who is required in terms of any legislation to maintain secrecy or confidentiality, or not to disclose information relating to a matter, may be required by the AGSA to comply with any of the requirements in this section, as the person would be otherwise in breach of that person's obligation of secrecy or confidentiality or non-disclosure.
- d The AGSA or an authorised auditor has at all reasonable times full and unrestricted access to any of the assets of or other assets under the control of the auditee.
- e The AGSA or an authorised auditor has at all reasonable times full and unrestricted access to any staff member or representative of the auditee.

Question 1.37

The *Public Audit Act* provides that the basis on which the audit fees charged by the Auditor-General South Africa (AGSA) are calculated is to be determined by:

- a The AGSA.
- b The AGSA after consultation with National Treasury.
- c The AGSA after consultation with the AGSA's oversight mechanism.
- d The AGSA after consultation with the AGSA's oversight mechanism and National Treasury.
- e The AGSA after consultation with the AGSA's oversight mechanism, National Treasury and the Minister of Finance.

Question 1.38

The *Public Audit Act* provides that when the Auditor-General South Africa (AGSA) is conducting an audit, auditees have certain responsibilities (and obligations) towards the AGSA. Which of the responsibilities below is not explicitly in terms of the *Public Audit Act*?

- a To render all reasonable assistance to the AGSA.
- b To render all reasonable assistance to the authorised auditors (for example private sector firms contracted by the AGSA).
- c To provide AGSA audit staff with suitable office accommodation and parking on the auditee's premises.
- d To provide the AGSA with access to office equipment, provided that this is done at a reasonable fee (this fee should not exceed the cost of the service).
- e To provide the AGSA with access to all required information.

Question 1.39

When performing an audit, the Auditor-General South Africa (AGSA) or an authorised auditor appointed by the AGSA:

Choose the **correct** option.

- a May enter any property, premises or vehicle on reasonable suspicion that a document, book or written or electronic record or information, or an asset, is hidden or kept on such property or premises or in that vehicle.
- b May, under the authority of a warrant, enter any property, premises or vehicle on reasonable suspicion that a document, book or written or electronic record or information, or an asset, is hidden or kept on such property or premises or in that vehicle.
- c May search any property, premises or vehicle, or any person on the premises or in the vehicle, for any document, book or written or electronic record or information or asset without the authority of a warrant.
- d **Must** request assistance from the South African Police Service or any other law enforcement agency or investigating authority to enforce the provisions of this section.
- e May not, when exercising the powers to search any property, premises or vehicle, be accompanied by any other individuals.

Question 1.40

The *Public Audit Act* requires that the Auditor-General South Africa prepares a report for every audit. Which of the following should **not** be included in these reports?

- a An audit opinion.
- b A statement as to whether the financial statements fairly reflect the results and financial position of the department.
- c A comment on the human resource practices of the entity.
- d A view on the efficient, economic and effective use of resources.
- e Performance information.

QUESTION 2**(60 marks)**

The Provincial Demarcation Board (PDB) is a Constitutional Institution linked to the Department of Provincial Affairs and reports directly to Parliament. In terms of the requirements of the Treasury Regulations, the terms of reference of the PDB's Audit and Risk Committee is revised on an annual basis.

You are a Registered Government Auditor and the senior audit manager on the audit of PDB. The revised Audit and Risk Committee Charter (attachment) was circulated for comments to all members of and invitees to the Audit and Risk Committee.

REQUIRED:

- (a) Discuss the proposal to have a combined Risk and Audit Committee, in preference to two separate committees. (10)
- (b) Briefly discuss the weaknesses and/or shortcomings of the revised Audit and Risk Committee Charter. (50)

**PROVINCIAL DEMARCATION BOARD
Audit and Risk Committee Charter**

1 PURPOSE

- a The Audit and Risk Committee of the Provincial Demarcation Board (PDB) is established as one of the core committees through which the PDB operates in terms of best practice.
- b This charter establishes the role and financial responsibilities of the Audit and Risk Committee.

2 PRIMARY FUNCTION

- a The primary function of the Audit and Risk Committee is to assist the Chief Financial Officer (CFO) of the PDB in his capacity as financial manager, in building and maintaining an effective and efficient financial administration function. In this regard, the Audit and Risk Committee oversees and reviews all the audit and internal control operations of the PDB and reports to the Chief Operating Officer (COO) with recommendations on corrective actions.
- b The Audit and Risk Committee will review the financial reporting process, the system of internal control and the management of financial risks. In performing its duties, the Audit and Risk Committee will maintain effective working relationships with the Chief Executive Officer (CEO), CFO, management and the internal and external auditors. To perform his or her role effectively, each committee member will obtain an understanding of the detailed responsibilities of committee membership as well as of the PDB's services, operations and risks.
- c To be effective, the Audit and Risk Committee should maintain independence from management, have a balanced of skills and be committed.

3 DEFINITIONS

- a "**Board**" shall mean the Provincial Demarcation Board established in terms of section 2 of the Provincial Demarcation Act.
- b "**Chairperson of the Board**" shall mean the Chairperson: PDB.
- c "**Manager/CEO**" shall mean an Employee on Level 14, or an employee formally appointed to act on Level 14.

- d **"Accounting Officer"** shall mean the CEO: PDB.
- e **"Management"** shall mean the CEO: PDB and all other heads excluding the CFO.
- f **"Integrated report"** shall mean the Annual Report.

4 **COMPOSITION OF THE COMMITTEE**

- a There shall be at least one member of the Committee who is from outside the PDB, with expertise in Accounting. The Committee member from outside will be appointed at the discretion of the PDB. The other members of the Committee shall also be members of the PDB nominated to serve on the committee.
- b The Chairperson of the PDB and the Manager are *ex-officio* members of the Committee and the CFO will attend by invitation. Representatives from the Auditor-General South Africa (AGSA) and the Board's internal auditors will attend meetings as needed by invitation.
- c A quorum is achieved if two of the six members of the Committee (excluding *ex-officio* members) are present.
- d Meetings of the Committee will be held in accordance with the Meeting Procedures policy of the PDB.
- e Conditions of serving on the Committee are determined by the PDB. The Committee is authorised to obtain all pertinent information from the CEO.
- f The PDB shall from time-to-time review and revise the composition of the Committee, taking into account the need for an adequate combination of financial and business skills.

5 **TERMS OF REFERENCE**

The Audit and Risk Committee is established to review:

5.1 **The financial reporting process**

- a Monitor the monthly reporting by the Manager to EXCO and the Board of the cash flow position.
- b Review the Manager's quarterly report to the Committee on the system's readiness and capacity to maintain adequate accounting records, and to produce accurate annual financial statements.
- c Monitor and review systems used to manage and safeguard assets.

- d Audit the annual financial statements to ensure that they are ready for external audit before submission to the PDB.
- e Review the AGSA's audit report and report on the financial statements.
- f Review the AGSA's qualitative judgment about the appropriateness of accounting principles and disclosure.
- g Review any serious difficulties or disputes with management and staff encountered during the course of the audit, as well as the Manager's responses to those difficulties.
- h Review the adequacy, reliability and accuracy of financial information provided to management and other users.
- i Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- j Review any legal matters which could significantly impact the financial statements.
- k Review the annual financial statements and determine whether they are complete and consistent with the information known to committee members.
- l Assess whether the financial statements reflect appropriate accounting principles.
- m Pay particular attention to complex and/or unusual transactions.
- n Focus on write-offs and transfers.
- o Focus on judgemental areas and estimates contained in them: for example valuations of physical assets, and assets and liabilities, environmental liability and other commitments and contingencies.
- p Assess the correctness of the financial statements and disclosures and obtain explanations from management and internal and external auditors on whether:
 - i actual financial results varied significantly from budgeted or projected results;
 - ii generally accepted accounting principles (GAAP) have been consistently applied;
 - iii there are any actual or proposed changes in accounting or financial reporting practices.
- q Meet with management and the external auditors to review the results of the audit.

5.2 Management and financial and business risks

- a Oversight of the process of identification and assessment of the general business risk, reviewing the outcomes of risk assessments, and advising the Manager as necessary.
- b Review any significant risks, findings and recommendations made by the AGSA or "internal audit", and management's response to them.
- c Monitor and review the fraud prevention plan implemented to prevent and detect fraud.
- d Ensure that there is a process for the Audit and Risk Committee to be informed of any Reportable Irregularities (as identified in the Auditing Profession Act, 2005) identified by and reported on by the external auditor.

5.3 Integrated reporting

The Committee oversees integrated reporting in terms of the Public Finance Management Act and will rely on the findings of the AGSA.

5.4 Combined assurance

The Committee will ensure that a combined assurance model, in terms of the Treasury Regulations, is applied.

5.5 Finance function and financial director

The Audit and Risk Committee reviews the expertise, resources and experience of the organisation's finance function, and discloses the results of the review in the integrated report.

5.6 The internal and external audit process

Consider the coordination of internal and external audits, to ensure completeness of coverage, reduction of redundancy and to maximise effective use of the audit resources.

5.7 External audit

Review the risk areas of the Board's operations to be covered in the scope of the external audit plan.

5.8 IT Governance and operational matters

- a Monitor that proper independent assurance on the effectiveness of the IT internal controls is received.
- b Ensure that IT risks are adequately addressed.

5.9 Employment of outside expertise

The Committee may employ outside experts for areas in which such expertise is not readily available at the PDB.

5.10 The PDB process for monitoring compliance with laws and regulations

Review legal and regulatory matters that may have a material impact on the way Financial Statements get prepared.

6 REMUNERATION FOR SERVING ON THE AUDIT AND RISK COMMITTEE

- a All full member(s) of the Audit and Risk Committee shall qualify for remuneration for serving on the Audit and Risk Committee.
- b The remuneration for member(s) shall be in accordance with the remuneration policy of the PDB.

7 MEETINGS OF THE AUDIT AND RISK COMMITTEE

- a The Committee shall have at least one meeting per financial year, provided that the Committee Chairperson may convene further meetings as frequently as circumstances require.
- b A quorum for any meeting will be two members - the chairperson and one other member.
- c Meeting agendas together with relevant support materials must be prepared and made available at the meeting.

8 REPORTING RESPONSIBILITIES

The annual report of the PDB must comment on the content of the annual report.

9 EVALUATION OF THE AUDIT AND RISK COMMITTEE CHARTER'S EFFECTIVENESS

The Audit and Risk Committee shall perform an evaluation of its performance at least annually, to determine whether it functions effectively, and report its findings to the executive authority.

10 **OTHER RESPONSIBILITIES**

Review and update the charter annually.

Signed

Chief Financial Officer

Chair of Audit and Risk Committee

QUESTION 3

(60 marks)

THIS QUESTION CONSISTS OF TWO RELATED PARTS

PART A

(25 marks)

You are a government auditor employed by the Auditor-General South Africa (AGSA). You recently enrolled in the Government Auditor Specialism Programme (GASP) as you intend qualifying as a Registered Government Auditor (RGA) and to become a member of the Southern African Institute of Government Auditors (SAIGA) in the near future.

You are also aware of the fact that the RGA certification is a professional qualification that enhances the professional status of government auditors. SAIGA, as the professional body regulating the RGA qualification, highlights the importance of consistent professional behaviour by its members. The professional body also endorses and promotes specialised education and training as well as requiring adherence to the INTOSAI Code of Ethics as fundamental to the profession.

During an ethics awareness workshop held in Gauteng, a number of cases relating to ethical dilemmas faced by government auditors were discussed:

Case 1:

Auditor Zimbali accepted an audit engagement at Department A. He had worked as a finance officer at Department A three months previously, but resigned and is currently a full-time employee of the AGSA. During the planning stage of this audit, auditor Zimbali did a comprehensive risk assessment, but the auditor-in-charge informed him that he should ignore the risk areas, and rather make use of the previous year's audit programme to save time. In addition, auditor Zimbali was asked to replace the auditor-in-charge of a high-level IT control review about to be conducted at Department A. The only other staff member on this audit is a junior IT auditor. Auditor Zimbali accepts the offer, due to the fact that he wants to enhance his IT audit knowledge and experience.

Case 2:

Auditor Yin accepted an audit engagement at Department B. He is a new employee and recently completed his postgraduate degree. During the audit he submitted his completed working papers to the auditor-in-charge. He was asked to verify the existence of 30 assets appearing on the Department's fixed assets register, but due to time and budget constraints, he only managed to verify the existence of 20 of these assets. However, the working paper clearly indicates that he tested all 30 items. Auditor Yin also signed the declaration of confidentiality form at the commencement of the audit, but he shared information on the tendering process of Department B with his best friend to enable him to tender for the provision of services to the Department.

Case 3:

Auditor Xulu accepted an audit engagement at Department C. He acted as the auditor-in-charge for the year-end audit. During the finalisation of the audit engagement he was asked by the Accounting Officer to remove one of the significant

findings in the audit report. The Accounting Officer offered him a large sum of money to do so. Accordingly, auditor Xulu drove to the office and removed the finding from the draft audit report. Three days later he received a request from the Accounting Officer to send his banking details whereafter an amount of R6 000 was deposited into his bank account.

REQUIRED:

- (a) Distinguish between business ethics and professional ethics. (2)
- (b) For each of the cases described above:

comment on whether the government auditor's intentions and/or actions are in line with the INTOSAI Code of Ethics. Your answer should also include a recommendation for appropriate behaviour. (20)
- (c) Briefly explain the consequences of non-adherence to the INTOSAI Code of Ethics for RGAs with reference to the Southern African Institute of Government Auditors' regulations. (3)

PART B

(35 marks)

You have been assigned to the annual audit of the National Credit Risk Regulator (NCRR), as the auditor-in-charge. The NCRR is a Schedule 3 public entity in terms of the Public Finance Management Act and is mandated by the National Credit Act to regulate the credit environment in South Africa. One of the auditors who reports to you has brought to your attention the following aspects that relate to the governance structures of the NCRR:

- The board of the NCCR consists of the following members:
- Ms Ashley Naidoo, NCRR Chief Executive Officer (CEO) and chairman of the board.
 - Mr Jan van Tonder, NCRR Chief Financial Officer (CFO).
 - Mr Levi Molefe, NCRR Credit Programme Director (CPD).
 - Ms Anna Baloyi, local attorney with extensive experience in the field of debt collection.
 - Ms Linah Mahlangu, private debt consultant.
- NCRR has recently appointed a new audit committee. The audit committee meets once in March and once in October, is appointed by the CEO, and consists of the following members:
- Adv Andrew Motshega, a local senior Advocate (chairperson).
 - Mr Richard September, a Chartered Accountant (CA).
 - Prof Emily Jones, a senior faculty member of a local university, and a specialist in integrated reporting and risk management.
 - Ms Ashley Naidoo, NCRR CEO and chairman of the board.

- When asked about the board’s strategy with regard to governance of information technology (IT), Ms Naidoo responded as follows: “*The NCRR has an IT manager in the IT department. He is responsible for all IT matters, including governance. The board does not have time to deal with such operational aspects.*”
- The NCRR does not have its own internal audit function, but has outsourced this function to KP&Young, a local internal audit consulting firm. The audit firm has developed an internal audit charter as well as an internal audit plan based on the annual risk assessment performed at the beginning of the year. All internal audit reports are presented to the chairperson of the audit committee, as he is the appointed individual responsible to oversee the internal audit function. The internal audit charter as well as internal audit plan have also been approved by him.
- The Chief Operating Officer (COO) of the NCRR, Mr Sameul Ndlovu, is of the opinion that the organisation is managing its stakeholder relationships very effectively.

REQUIRED:

- (a) Define the terms "integrated reporting" and "governance of IT" as discussed in the third King Report on Governance (King III) and discuss the applicability of these concepts to a public sector organisation such as the NCRR. (4)
- (b) For each of the four governance aspects described above:
 - (i) record all instances of adherence to King III; (9)
 - (ii) record all instances of non-adherence to King III; and (9)
 - (iii) formulate a recommendation to improve the corporate governance in accordance with King III. (7)

Provide your answer in table format:

No	(i) Adherence	(ii) Non-adherence	(iii) Recommendation
1.

- (c) Prepare a questionnaire that you present to the executive management of the NCRR in order to determine the extent to which the organisation adheres to the principles of King III that relate to stakeholder relationships. (6)